

Canada's climate tax credits focus too much on oil and gas

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Body

The federal government's promise of a new tax credit for the oil and gas sector's carbon capture, utilization, and storage (CCUS) development was met with support, skepticism and disdain.

That's not surprising. What was surprising was the oil and gas sector wanting a 75 per cent tax credit instead of the average 50 per cent one on offer. It's not unreasonable to ask why the government's subsidy focus is on the highly profitable emitters and not the Canadian CCUS sector as a whole?

The imbalance is sizable. The proposed tax credit for the oil and gas industry is projected to cost about \$7.1 billion over eight years while the government investment into Canadian CCUS technologies not connected to the oilpatch is just \$319 million over seven years. In addition, emitters in Canada can choose their partners from any country and get the tax credit under the same terms, which doesn't provide any incentive to shop local.

The federal government's rationale for this allotment of resources is to reduce emissions from the oil and gas sector while increasing oil production. Given current and forecasted oil prices the strategy seems like sound economic policy. As a result, the oil and gas sector gets government support for production and climate action. Since they are in the production business, the sector logically wants to be funded as much as possible for climate action, which is just an expense for them.

Developing CCUS solutions is not an expense for the innovative firms tackling the problem from multiple perspectives. Squamish-based Carbon Engineering is working to deploy direct air capture facilities that each can capture one million tons of CO₂ a year.

Halifax-based CarbonCure manufactures a technology for the concrete industry that introduces recycled CO₂ into fresh concrete and traps it there.

Burnaby-based Svante captures carbon dioxide from flue gas generated by industrial plants such as cement, steel, aluminum, and fertilizer.

Markham-based Pond Technologies has scalable bioreactors that use industrial greenhouse gas emissions (GHGs) to cultivate algae and other biomass.

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The oil and gas sector has seen some success with their CCUS projects. The Quest carbon capture and storage facility, near Edmonton, shows that large-scale CO₂ capture can reduce CO₂ emissions. To date, Quest has captured and stored more than six million tonnes of CO₂. Yet the oil and gas sector's CCUS is focused on emissions from production, not consumption from cars, trucks and heating, which is where the majority of GHGs come from.

Canada's CCUS companies are eligible for an array of programs (Scientific Research & Experimental Development, Sustainable Development Technology Canada, Strategic Innovation Fund (SIF), Federal Economic Development Agency (FedDev), Canada's Innovation Superclusters and a host of regional programs). Given the progress by Canadian CCUS firms, the government should direct a greater benefit to clients of domestic CCUS companies to encourage this industry's growth and make Canada a leader in the field.

The government can further facilitate this growth by simplifying what is now a complicated audit and reporting process, and provide incentives to achieve scale sooner. A clarification to the criteria and earning of the investment tax credit to recognize it in the year of the implementation would be welcomed. In addition, the inclusion of contemporaneous costs such as administration and project management incurred by the emitter would incentivize the pursuit of these projects.

The government's current climate strategy for businesses uses both the carrot (tax credits, rebates) and the stick (carbon taxes).

The stick is unpopular and felt by Canadians at the pumps and thermostat so there is a need for more carrots for sectors other than oil and gas. When the story is written, nobody will remember the size of the sector subsidy - only its impact.

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